

TO: Jeffrey P. Simons, Superintendent of Schools
FROM: Larry Edson, Assistant Superintendent for School Business
Finance
DATE: October 2, 2018
RE: **AGENDA ITEM: 2017-2018 Audit Report**

Enclosed for your review are the following 2017-2018 audit reports prepared by Bonadio & Co, LLP, District appointed independent auditors:

- 1) Financial Statements and Required Reports Under Uniform Guidance Together With Independent Auditor's Report
- 2) Extraclassroom Activity Funds Financial Statements Together With Independent Auditor's Report
- 3) Required Communications Letter
- 4) Internal Control Matters Letter (Not issued this year, auditor included recommendations within financial statements document)

An independent audit is required of all New York State school districts in accordance with Regulations of the Commissioner of Education. Annually, the District appoints an independent auditing firm to perform those duties. Bonadio & Co., LLP has completed the audit in the third year of the five-year Request for Proposal (RFP) period.

Alan Walther, Audit Shareholder, or his designee is expected to be in attendance at the October 17, 2018 Board of Education meeting to present the audit reports and findings. He will also answer any questions you may have regarding the audit process.

If you have questions as you review the audit reports, please feel free to call me in Central Administration or speak with Linda Wager, Accounting Supervisor. Note that the draft financial statements were presented to the Finance & Audit Committee on September 27, 2018 as required by the Comptroller's Five-Point Plan.

RESOLUTION

Resolved, the Board of Education of the East Greenbush Central School District accepts the audit reports for the year ended June 30, 2018 as prepared and presented by Bonadio & Company, LLP, independent auditors.

Motion by: Ms. Skumurski Seconded by: Mr. Giordano
Vote: Ayes 9 Nays 0 Abstentions 0

TO: Jeffrey P. Simons, Superintendent of Schools
FROM: Larry Edson, Assistant Superintendent for School Business
Finance
DATE: October 2, 2018
RE: **2017-2018 Audit Report – Review of Financial Statements**

Education Law and Regulations of the Commissioner require that school districts obtain an independent audit by an outside certified public accountant or public accountant. This requirement is further outlined in Board Policy #6600, Fiscal Accounting and Reporting.

The purpose of the external independent audit is to express an opinion on whether the financial statements fairly present, in all material respects, the financial position and the results of operations in accordance with generally accepted accounting principles. (Reference Document for Audits of Financial Statements of New York State School Districts, 2018)

The independent auditor, Bonadio & Co., LLP, was chosen by the Board of Education using a Request for Proposal (RFP) process for obtaining professional services. The current Request for Proposal, approved at the January 13, 2016 Board meeting, is a five-year engagement, which began with the audit for the year ended June 30, 2016. A new RFP will be issued in November or December 2020 to select a new independent auditor for the next five-year cycle. Note the independent auditor is a required appointment by the Board of Education as part of each annual organizational meeting in July.

Bonadio & Co., LLP, conducted certain audit transaction tests of accounts payable and payroll transactions prior to June 30. Subsequently, once the year ended, they returned to review year-end balances and other types of transactions in August. Once Bonadio & Co., LLP, completed their fieldwork, they began compiling the information for the financial statements.

Accordingly, the following reports have been issued for the year ended June 30, 2018:

- A) Required Communications Letter
- B) Financial Statements, Required Reports & Independent Auditor's Report
- C) Extraclassroom Activity Funds Financial Statements & Independent Auditor's Report
- D) Internal Control Matters Letter (Not issued this year, auditor included recommendations within financial statements document)

Required Communications Letter

The required communications letter is required under auditing professional standards to disclose:

- 1) Significant Audit Findings & Accounting Estimates
- 2) Financial Statement Disclosures
- 3) Difficulties Encountered in Performing the Audit (none)
- 4) Corrected and Uncorrected Misstatements (none)
- 5) Disagreements with Management (none)
- 6) Management Representations
- 7) Management Consultations with Other Independent Accountants (none)
- 8) Other Audit Findings or Issues (none)
- 9) Other Matters

Since the auditor's work is on a test basis, there is a risk that material errors, fraud, or other illegal acts may not be detected by them. The auditor's tests include transactions related to grants under federal programs. (This is in relation to the Federal Office of Management and Budget Uniform Guidance.)

Under significant audit findings, the auditor comments that the District adopted a new accounting policy, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. General disclosure on other postemployment benefits appears on pages 45-48 of the financial statements along with a note on the cumulative effect of the change in accounting principle. The Statement is applied to the financial statements as a whole appearing on pages 14-15, but not to the statements for governmental funds appearing on pages 16-20.

There were no difficulties encountered in performing the audit, uncorrected misstatements, disagreement with management, management consultations with other independent accountants, or other audit findings or issues noted.

Nothing else noted in the letter is of significant concern to the reader.

Financial Statements, Required Reports and Independent Auditor's Report

The information provided within the financial statement reports is similar to prior years' reports. Classifications of fund balance are reflected in accordance with Board of Education policy #6245 and GASB Statement No. 54. The statements reflect GASB Statements No. 68 and No. 71 related to pension plan reporting, No. 77 related to tax abatement disclosures and No. 75 related to postemployment benefits other than pensions.

The Independent Auditor's Report (following the Table of Contents) is the result of the auditor's conduct of tests of transactions during the audit. Based on their testing, they note the financial statements "present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the East Greenbush Central School District as of June 30, 2018." This opinion is an unmodified opinion, important for future bond rating of the financial condition of the District.

Management Discussion & Analysis (pages 4 to 13) is designed to provide an overview of financial operations and changes from the prior year in an easy to read format. The format is not prescribed; however, the presentation of management discussion and analysis is in the style suggested by the State Education Department. Of particular interest on page 8 is the decrease in total net position, due to a higher obligation for other postemployment benefits.. Note the graphs on page 9 highlight the major sources of revenue (property taxes, state aid) and expenditures (instruction, transportation) in the District. Page 11 highlights a \$143,000 loss in the school lunch fund prior to interfund transfer and reasons for revenue and expenditure variances. Page 12 shows positive variances in revenue and expenditures amounts for the year. Also note the supplemental schedule on page 56 which indicates the District's unassigned fund balance at year-end is below the 4% maximum level set by New York State.

The Financial Statements (pages 14-21) are a summary of financial activities, both during the fiscal year 2017-2018 and at year-end June 30, 2018. The Statement of Net Position (page 14) and Statement of Activities (page 15) are presented for compliance with GASB Statement #34. These statements are designed to provide additional information to the reader for results of government financial operations. The balance sheet for government funds (pages 16-18) indicates the District has \$3,041,077 of unassigned fund balance at year-end. This amount is within the 4% budgetary limit prescribed by law. The amount designated for tax levy reduction is set at \$6,829,322 consistent with the tax levy adopted by the Board in August. The statement on page 19 shows the school food service operation has an ending fund deficit of \$7,290 and an operating loss of \$143,468 prior to the operating transfer of \$165,000.

Notes to Financial Statements (pages 22-50) explain in greater detail the types of accounting procedures, policies, and restrictions that are all part of the District's financial operations. The notes also detail different assets and liabilities, such as long-term debt on pages 36-37, to provide further explanation. The notes section has been significantly expanded related to pension plan reporting from the implementation of GASB Statements No. 68 and No. 71. It is further expanded relating to postemployment benefits other than pensions related to implementation of GASB Statement No. 75.

Supplementary Information (pages 51-58) contains a schedule on page 56 to ensure that the ending unassigned fund balance is within the 4% maximum limitation set by law. Other supplementary schedules contain revenue and expenditure amounts comparative to budget, changes to the budget, and summarize capital project activity. Recall that the adopted budget changes based on bus purchases, acceptance of donations, Pepsi money, and E-rate funding that are not anticipated at the time of budget preparation.

Required Reports under Uniform Guidance (pages 59-66) relate to the auditor's testing of grant funds received from the federal government. Due to the amount of grant funds awarded, the federal government requires the auditors to perform transaction testing, review internal control procedures, and express an opinion related to compliance with grant requirements and restrictions. After testing was completed, the auditor recommended that closer attention should be given to the free and reduced meals application process. Management has responded that the treasurer will compare an annual eligibility report to the physical applications. A separate corrective action plan will be presented to the Board for consideration.

Extraclassroom Activity Funds Financial Statements

The extraclassroom activity funds financial statements represent the financial operations of clubs and activities at the High School and Middle School. The Board of Education has oversight responsibility for these student funds, and Karen Bauer served as treasurer for the 2017-2018 fiscal year.

The opinion expressed by the auditors is a qualified opinion. The basis for the qualified opinion is that insufficient accounting controls are exercised over cash receipts at the point of collection to the time of submission to the central treasurer. Accordingly, the auditor was unable to obtain sufficient audit evidence over such receipts beyond the amounts recorded. In light of the qualified opinion and a recent audit by the internal auditor, the District is taking steps to improve club accounting operations and has hosted three meetings this year of the Appendix D Committee.

Internal Control Matters Letter

The auditor makes recommendations to the Board of Education, which in their opinion, will strengthen the procedures and controls within the financial operations of the district. The Internal Control Matters Letter is not a "report card" on financial operations; it is a summary of suggestions that will assist us in managing finances within the District. No internal control matters letter was issued for 2017-2018; however, the auditor's recommendation on federal funds

contained within the financial statements will be addressed by a corrective action plan.

If you have any questions, please contact me in Central Office.